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C O N F I D E N T I A L SECTION 01 OF 03 DAR ES SALAAM 000312

SIPDIS

DEPT FOR AF/EPS, AF/RSA AND AF/E FOR B YODER  
DEPT ALSO FOR EB  
PASS TO MCC FOR L BLACK AND G BREVNOM  
TREASURY FOR L KOHLER  
LONDON FOR J YOUNG  
PARIS, BRUSSELS FOR AFRICA WATCHERS

E.O. 12958: DECL: 02/16/2011  
TAGS: ECON EFIN ENRG EPET TZ  
SUBJECT: TANZANIA'S ENERGY CRISIS: INCREASING POWER CUTS  
THREATEN ECONOMIC GROWTH

REF: A. DAR ES SALAAM 0300

1B. 05 DAR ES SALAAM 02244

Classified By: Mary B. Johnson, Economic Counselor, for reasons 1.4 (d)

SUMMARY

11. (C) In addition to facing a food shortage, Tanzania is currently mired in a full-fledged energy crisis (Ref A). On February 4 the Ministry of Energy and Minerals announced nationwide power rationing to ease pressure on the national power grid by 60 megawatts. A week and a half later, on February 15, the GOT announced more drastic power shedding: nationwide cuts Monday through Friday from 7 a.m. to 7 p.m., to save an average of 120 megawatts on the national grid. According to officials at the Ministry of Energy and Minerals (MOEM), there is no clear end in sight; rationing will continue for at least another four to five months.

12. (C) The immediate causes of the crisis are Tanzania's over dependence on hydro-power and the persistent drought. Water levels of Tanzania's two major dams, Mtera and Kidatu, which generate more than 50 percent of the country's electricity, have dwindled to dangerously low levels. The more fundamental problem, however, is the lack of investment in the power sector over the past decade. Poor grid management, insufficient capacity and maintenance, and lack of engineering, have left Tanzania's energy sector in shambles.  
END SUMMARY.

NATIONAL POWER GRID OVERLOADED, NEAR COLLAPSE

13. (SBU) Water levels have dwindled to threatening levels in Tanzania's reservoirs. Key, telltale hydropower plants, such as Mtera Dam, have been operating three meters below the allowed production level of 690 meters above sea level. The Minister of Energy and Minerals, Dr. Ibrahim Msabaha, told the Guardian newspaper on February 15 that Mtera Dam had reached 687.35 meters, and to save the system from total collapse, the GOT had decided to increase power-rationing hours based on recommendations from Tanzania National Electricity Supply Company (TANESCO). "The message is absolutely clear," Emiel de Bont, Economic Counselor at the Dutch Embassy, told Econoff. "This country is too dependent on hydro-power." Tanzania's total hydro-generating capacity is 381 megawatts, accounting for more than 60 percent of the total power demand (550 megawatts).

SOARING POWER COSTS HIT RESIDENTS, SMES, HOTELS THE HARDEST

14. (C) The GOT's power-shedding plan affects all domestic customers - residents and businesses. Engineer Theophilo Bwakea, Assistant Commissioner in the Electricity Section at the MOEM, explained to Econoff on February 16, that the load-shedding was "indiscriminate, all over the country, wherever the national power grid extends." Bwakea clarified, however, that the plan did try to preserve the operations of larger, key industries. As much as possible, MOEM is working with TANESCO to ensure that industries which are important in generating taxes for the government are not affected. Bwakea mentioned several industries based in Dar es Salaam, including Tanzania Breweries Limited, KIOO Limited (glass manufacturing), Aluminum Africa, and Tanzania Cigarette Company, which would not have their power rationed.

15. (SBU) Most of the mining companies will also not be affected by power cuts. Accustomed to unreliable power, major mining companies, such as Geita Mines, already generate their own power and therefore, are not reliant on power from the national grid. Minister Msabaha has also said sensitive areas including hospitals, banks and the Tanzania's Revenue Authority (TRA) would not be affected by the new load-shedding schedules (Guardian, February 15).

16. (C) Small and medium sized businesses, and domestic residents, will be the hardest hit by the power shedding. Many medium sized businesses have back-up generators.

However, the costs of running this back-up equipment are high and the generators are not meant to run day and night. Bhakti Shah, Director of Soft-Tech Group (a medium-sized information technology firm), said that the cost of running her generators is spiraling up. "We train 300 people per week from 8 a.m. to 8 p.m. and the generators require petrol and diesel which is very expensive. One of our generators keeps breaking down and we cannot find anyone to repair it. The situation is bad and we are worried," Shah lamented.

¶7. (C) De Bont of the Dutch Embassy explained that the power-shedding was also "killing the hotels." For example, at Movenpick, one of Dar es Salaam's four-star hotels, power costs skyrocketed from USD 5,000 per month in September 2005 (before one transformer broke down in Ilala) to USD 65,000 per month in October. Ambassador Retzer noted similar figures for the newly-renovated Kilimanjaro Hotel in Dar es Salaam: about USD 70,000 in monthly power costs to fuel and maintain diesel generators.

¶8. (C) In previous conversations with Commissioner of Energy, Bashir Mrindoko, Econoff learned that Tanzania's power tariff was well below the regional norm and that at some point, TANESCO's tariff rates would have to rise (Ref B). TANESCO did manage to get a tariff hike of five percent in January. According to the World Bank, however, the needed power tariff is should be as much as 28 percent. "The tariff hike that's needed would cut in half TANESCO's customer base and the MOEM has said this will never happen," de Bont noted.

#### NEEDED: INCREASED INVESTMENTS AND DIVERSITY

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¶9. (C) Both officials, Prosper A.M. Victus, Assistant Commissioner for Energy, and Assistant Commissioner Bwakea, noted that they had witnessed drought and power shedding before, but this time the MOEM was in crisis mode. "Even if the rains come this year, the added water will bring only temporary relief. We have had below normal rainfall for the last three or four years," Victus said. Like de Bont, Victus emphasized the over dependence on hydro-power and lack of investment in the power sector since the GOT had initiated privatization of TANESCO in the late 1990s. Due to insufficient investment in the power sector, the entire system has deteriorated; both capacity and maintenance are too low. "TANESCO does not even have the capacity to respond to problems on its own grid or control its distribution of power; without increased investments and resources, the situation appears hopeless," de Bont emphasized.

¶10. (C) In addition to increased investments, Bwakea and Victus stressed the importance of diversification. One of the major pillars of the MOEM's Master Sector plan, drafted in 1999 and updated each year thereafter, is diversification of power generation. Bwakea explained that the MOEM clearly recognized Tanzania's over dependence on hydro-power and noted that power generation from coal features prominently in MOEM's plans to diversify. Bwakea also suggested, in a joking manner, that Tanzania could benefit from nuclear power. "If the country had sufficient capital resources and if the U.S. would let us, nuclear power could help! It is even environmentally friendly," Bwakea laughed.

#### COMMENT: NO QUICK FIX

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¶11. (C) There is no quick fix to Tanzania's power crisis. While rationing continues, and Tanzanians pray for rain, the GOT is attempting to install an additional gas turbine in Ubongo (just outside Dar es Salaam) for emergency power generation. However, Bwakea noted that installation of this turbine would take at least four months. The bottom line is that Tanzania's energy sector is nearly in shambles and requires a significant overhaul. TANESCO is sinking further into debt, barely keeping its head above water; SMEs and other customers are in the same boat--suffering from rising fuel costs, rationed power, scarce water and increasing food insecurity. In the immediate term, with no clear light at the end of the tunnel, in de Bont's view, "it is pretty safe to kiss those GDP growth rates of 6 percent goodbye."

¶12. (C) In the longer-term, however, there may be hope, in line with the saying that "sometimes things have to get worse, before they get better." The emerging crisis could bring to bear the needed resources and expertise to address the root problems which have been plaguing Tanzania's energy sector for years. Tanzania has long suffered from unreliable power supply, a key reason why long-term investors, such as mining companies, have resorted to generating their own power. With little choice but to diversify and to seek investment and outside assistance in order to revamp the power sector, the GOT could be in for an ultimately fruitful, albeit very difficult, battle. End Comment.

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